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Turmoil Along the Mississippi

A Conversation With Jack Malone

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Editor's Viewpoint

Mid-morning, July 8: **Amoco Corp. announces that it will eliminate 8,500 jobs—almost 16% of its total work force—by the end of 1993. Eleven hundred of the jobs will be cut from Amoco's Chicago headquarters operations.**

Amoco chairman Laurance Fuller says the human impact of the reductions is "very real and very painful," but also very necessary. Calling the cuts part of a "strategic reassessment" to make the company more competitive, Fuller says declining earnings and cash flow resulting from the recession, lower oil and gas prices and declining product demand set the stage for the retrenchment. (See p8 for more details.)

11:45 a.m., July 8: Phone call from the news desk of "Eyewitness News" on Channel 7, the Chicago affiliate for ABC. They want to interview me about the Amoco situation. Fine, I tell Channel 7.

2:00 p.m., July 8 : "Eyewitness News" reporter Paul Meincke and a cameraman show up for the film interview at our *NPN* offices. For the next 15 minutes or so, Meincke and I talk about Amoco and the current state of the oil industry. I explain that Amoco's situation is by no means unique, that most of the majors are in various stages of economic distress (for the same reasons Fuller gave), that reports of layoffs, pullouts, selloffs or closings of stations and "non-core" business units are reported almost daily. I indicate the industry is faced with finding billions of dollars for environmental upgrades to produce cleaner-burning fuels. I also note this is only the latest in a series of cutbacks by major companies, that many have been restructuring since the early 1980s.

Finally, I point out that the industry is not in a permanent state of decline, that oilmen have tough hides, that they've been through these lull periods before and, when times get better, so will the industry's fortunes.

4:00 p.m., 5:00 p.m., 6:00 p.m, July 8: The 15-minute interview ends up as a 10-second "sound bite" on the three successive airings of the evening news. My evaluation of industry events becomes a quick take of my final comment. End of analysis.

In retrospect, this experience was a reminder of the extraordinary differences between print and broadcast journalism. The latter, especially TV, lives and dies by the quick-hitter sound bite; riots, murders, earthquakes (and company layoffs) flow past our consciousness in a constant, volatile stream of instantaneous images. The hows and the whys and the historical context of a situation get scant attention. This is no criticism; broadcast journalism has a vital and necessary role in news dissemination. It's on top of major developments (sometimes as they occur) faster than any news source. Channel 7, for one, is rated very high in this regard.

However, as a lifelong print journalist, I can see that our mission at *NPN* is equally important. As a monthly magazine, we don't do the fast-breaking stuff. Our task is to bring perspective to recent news happenings, to discern trends and to gauge the impact of industry, national and even international developments on the petroleum marketing business. Fortunately, we have a great pool of talent and expertise—our *NPN* readers—to call on to help us do this job.

—Don Smith

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• TRENDS

Alternative-Fuel Studies, Marketing Spreading

The pace of the race for alternative fuels is quickening. Proponents of alternative fuels apparently mean to give dedicated gasoline refiners and marketers a run for their money. The alternatives are all niche markets now, but who knows what the future holds?

The stakes are very high, and alternative fuels do not have to win out over gasoline to make their efforts worthwhile. Numerous gasoline marketers are themselves experimenting with alternative fuels, and some are developing marketing programs that will compete directly with a portion of their gasoline and diesel business.

There can be no doubt anymore that the overwhelming dominance of gasoline and diesel fuel in the automotive market will never be quite the same. The two fuels will remain to some degree dominant indefinitely, to be sure, but there appears to be sufficient energy and motivation to force room for other fuels.

Quite a few oil companies believe no alternative has a chance against reformulated gasoline. Some see CNG (compressed natural gas) and LPG (liquefied petroleum gas, mostly propane) as too cumbersome except for large fleet use, and electricity as too far away to make much of an inroad. Some think methanol, relatively unknown in widespread use, will be found to be more of a polluter than many thought.

The motor-fuel landscape is diversifying. Never have there been so many alternative-fuel experiments and programs. Never has there been so much money betting on other horses.

Phillips is launching the first product franchise in its 75-year history, a propane agreement with a Colorado marketer, Glaser Gas Inc., Calhan. Glaser will convert vehicles to run on propane, service the vehicles and sell branded UltraClean through its outlet in Colorado Springs.

Phillips 66 Propane Co., a subsidiary, already operates in Colorado east of the Rockies, with facilities in Denver, Ft. Collins and in Wyoming serving 45 fleets. The company has other UltraClean operations in St. Louis and is looking to expand to other major metropolitan areas in the Midwest.

The franchise is intended to speed up growth and make propane a more important competitor against other alternative fuels. Phillips expects to sign other contracts in Colorado by yearend. Some other companies are also beefing up their propane marketing.

One of the broadest alternative-fuel test programs appears to mean business in finding out everything about fuels and vehicles in fleet use: conversion costs, fuel economics, emissions, vehicle performance, need for employee training, maintenance requirements, complications in meeting building codes and fire regulations and other comparisons.

The $11-million project is called CleanFleet, said to be the first long-term, side-by-side alternative-fuel demonstration program. Using 113 specially built Federal Express package-delivery vans in southern California, the fleet will test CNG, electricity, methanol (M85), propane and reformulated gasoline. Flexible-fuel vehicles are excluded. Conclusions are expected in June 1994.

Backers include federal and state agencies, automakers and fuel companies. Ford, Chrysler and Chevrolet will make the nonelectric vehicles. Electric vehicles manufactured by VEHMA will be supplied by Southern California Edison.

The only oil company participants are Arco and Chevron, but some fuels are represented by associations.

Battelle Memorial Institute, a respected research firm, will carry out the evaluation and is trusted to provide a level playing field.

Emission results will be crucial, if not paramount. This whole race got started because of intolerable urban air and environmental regulations attempting to deal with it. Because of approaching deadlines, solutions can't be put off much longer. No doubt some alternative-fuel decisions will be made on regulatory demands, not on economics.

—Mark Emond

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

APRIL	Gasoline (All types)	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.197	$1.136	$1.317
Regions			
Northeast	1.209	1.128	1.341
North Central	1.174	1.132	1.299
South	1.166	1.093	1.274
West	1.263	1.213	1.388

Data no longer collected or available on leaded regular.
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	6/26/92	6/28/91
Gasoline (Total)	220,876	219,167
Unleaded*	179,279	172,320
Jet Kerosine	39,789	42,300
Distillates	102,627	113,588
Residual	39,582	44,162

**Leaded regular prices no longer collected by Bureau of Labor Statistics.*
Source: American Petroleum Institute.

For Ohio Marketers, Prosperity Isn't Always a Lowball Price

Oil companies and independent marketers in Ohio are discovering that below-market gasoline prices don't always guarantee prosperity or market dominance. The savvy marketers in the state rest comfortably in the knowledge that as long as they emphasize good business practices and customer service, that increasing gasoline volumes and market share will take care of themselves.

This marketing philosophy was reinforced in a report on the 1991 activity of the top 30 marketers in the state. Provided by the Ohio Dept. of Taxation, Motor Fuels Section, the report supported the idea that increased market share was the driving force behind the aggressive, and at times apparently excessive, marketing policies of several companies during the past year.

Both Marathon Oil Co. and Ashland Oil, Inc. went to great lengths to boost volume and market share at their retail facilities in 1991 with ultra-low prices, industry sources say. But the strategy may have backfired to a degree as Marathon's Emro marketing division, which is the second ranking marketer in the state, experienced a 1.9% decrease in taxable retail fuel sales, and sales for Ashland's branded marketing division edged down 0.5% for the year.

Other factors such as consolidation, station closures, etc., might have contributed to those flat sales. Marketers in the area claim Ohio consumers base gasoline purchases on more than just price.

"It's very interesting that Marathon and Ashland lost gallons because they've been so incredibly aggressive," says one source. "It just seemed that the most aggressive companies lost gallons, while the most responsible companies were the ones that gained."

"Marathon has this policy that they have to be at least 2¢/gal. below the market," says the source. " The policy is that they are out to gain gallons, but there is no logic behind what they do. To give you an example, Marathon opened a station adjacent to a BP America station. Even in that close proximity, Marathon posted 7¢/gal. below BP. It was unconscionable."

BP America, the top marketer in the state, commands nearly one-fourth of the Ohio market, and does so by remaining competitive without "bringing the market down," as one marketer phrased it.

BP's strategy the past two years has been to brighten up its retail image. The company has made major investments in refurbishing older units and adding more features to existing ones. This helped stimulate motor fuel sales last year. The main factor in its success, as many Ohio independent marketers have witnessed, is BP's highroad marketing strategy. Marketers say BP has had an overall stabilizing effect on the marketplace.

"We're tickled to death to have them here because they bring out the best in us. They're a responsible company," says Ben Englefield, president of Englefield Oil Co., Newark, Ohio, which is ranked ninth in the state.

Says another Ohio marketer, "BP could destroy everyone if they wanted to, but they haven't. They don't play games and they seem to take the long view. The key is they have never driven the market down and they are perhaps the only company in Ohio that has the power to bring the market up."

Englefield, which owns and operates 76 retail locations in Ohio, Pennsylvania and West Virginia under its own independent Duke brand, lost about 1.5-million gal. in 1991 at the retail level in Ohio. This was partly due to a decision to close a few marginal locations. But as Ben Englefield readily admits, the company was not as aggressive as it should have been during some periods.

"The price inversions of 1991 forced us to step out of our marketing theme and do things we wouldn't in normal conditions," says Englefield.

Englefield says the company tends to be more an "aggressive follower" than a leader. In 1991, the company's response was to temporarily match Ashland's SuperAmerica stations and Emro's Speedway and Checker stations cent for cent. But, economically speaking, that couldn't last.

Through 1991 and up to the present, Englefield would boost his retail price 7-10¢/gal. a couple days after matching these companies to recoup profits. "We have a cycle where after matching a competitor, we might raise our price on a Tuesday to see what the market would bear and then maybe by Thursday we might come back down or the market would come up to us," says Englefield. "But during that 2-day period between Tuesday and Thursday we suffered a loss of volume."

All things considered, Englefield was pleased with the way volumes responded toward the end of the year, and by the end of 1991 the acquisition of several Conoco facilities provided a shot in the arm to his retail gasoline operation.

Englefield says he's proud of weathering the storm, especially since he has no major supplier to provide margin allowances and subsidies when times are bad. "Our two largest suppliers [unbranded product from Ashland and Marathon] are also our two biggest competitors," he says.

Major oil companies account for 56% and independent marketers 30% of the motor fuel sold in the state in 1991, according to the Ohio Dept. of Taxation,

Top 10 Ohio Oil Companies

Company	Rank		% Market Share		Gross Gallons (add 000,000)		% Change
	1991	1990	1991	1990	1991	1990	
BP	1	1	23.8%	22.3%	1,319	1,254	5.2%
Marathon	2	2	14.5	14.6	806	822	(1.9)
Shell	3	3	6.3	6.2	351	346	1.4
Ashland	4	4	5.6	5.5	309	311	(0.5)
Sun R & M	5	5	4.7	4.4	258	244	5.5
Clark	6	6	3.4	2.1	189	194	(2.6)
The Lyden Co.	7	7	2.0	2.1	111	119	(6.6)
Ports Petroleum	8	8	1.7	1.8	96	100	(4.2)
Englefield Oil	9	9	1.7	1.7	94	96	(2.7)
Certified Oil	10	10	1.7	1.5	87	87	—

Motor Fuels Section.

The state's 1991 total taxable retail motor fuel gallons fell 1.28% (or 71.9-million gal.) from 1990 totals. The decline is attributed to the fact that the number of gallons used per car has dropped a whopping 37% over the past 18 years and continues to drop due to increased fuel efficiency of newer model vehicles.

Suburb Rescinds Item-Pricing Law

Grudgingly, Evanston, Ill., a north suburb of Chicago, has lifted a long-time item-pricing requirement for retail outlets. Rescinded by the city council earlier this spring, the law had forced convenience stores, supermarkets and other retailers to affix item prices to the majority of inventory in their stores.

The new interpretation of the ordinance paves the way for installation of retail scanning, which has become an effective tool for retailers to monitor inventory and keep checkout lines moving. Evanston was recognized as being one of the last municipalities—at least in Illinois—to require item pricing.

The new ordinance calls for the regular monitoring of scanner accuracy by city inspectors, but allows a disparity between the shelf price and the scanner price on a full 6% of all items tested before a store can be held in violation.

Evanston's new law also requires that stores give away free any item in which the scanned price differs from the posted price.

The developments come despite a petition drive in Evanston that attempted to sustain item pricing, which has long been an important feature for low-income and moderate-income consumers on fixed incomes, including the elderly. Many people believe that item pricing provides important information necessary for intelligent comparison shopping.

The campaign was ineffective, generating only about 50 signatures, mainly because over the years several retail locations have disregarded the ordinance by failing to item price inventory. Customers never complained, so there was never a call for strict enforcement.

While Evanston is relaxing its item pricing policies, other states and local governments that have long permitted scanning have begun to reverse course, and are exploring the possibility of reinstating item-pricing. A bill to mandate item pricing in Illinois was defeated, but could be revived in a forthcoming session of the Illinois General Assembly.

The state of New York is also exploring reinstituting item-pricing after a study showed discrepancies existed between the posted price and the scanned price.

Illinois Bill Prohibits High Contractor Fees

A legislative proposal has been introduced in the state of Illinois that prohibits environmental contractors from charging "handling" fees amounting to of more than 12% over contract.

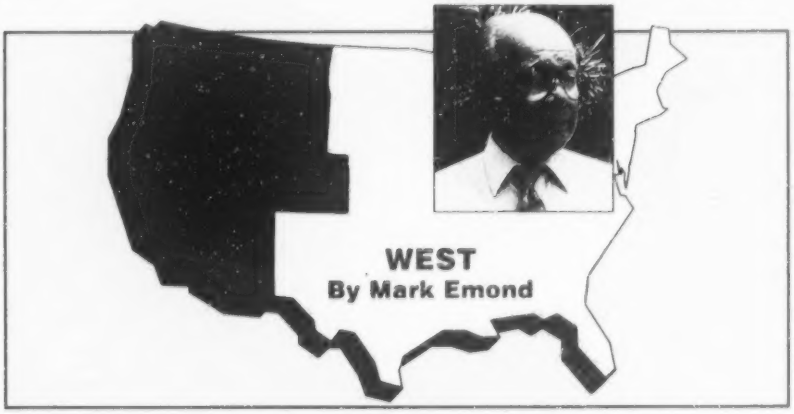
William Deutsch, executive vice president of the Illinois Petroleum Marketers Assn. (IPMA), says the measure speaks to the large number of contractors who have submitted handling charges of 15-20% to owner/operators of underground storage tanks.

The bill calls for a sliding scale schedule that puts a ceiling at 12% for a handling fee. For instance, if the cleanup of a given contaminated site costs $5,000, the contractor can't charge more than 12% of the contract. If the job costs $100,000 or more, the handling fee ceiling is 2%. In between, if the contract is $10,000, the handling fee ceiling is 10%; $10,000-$35,000, the ceiling is 8%; and $35,000-$50,000, the ceiling is 5%.

A handling fee is usually an administrative cost that includes procurement, word processing, telephone, documentation and other miscellaneous expenses.

Other provisions are contained in the bill that would amend the Environmental Protection Act and the Gasoline Storage Act. One such provision authorizes the federal Environmental Protection Agency (EPA) to make reimbursements to the owner/operator of a leaking underground storage tank after the owner has paid 100% of the amount deductible and completed 100% of the cleanup work that is required.

Presently, owner/operators have to prove payment of 100% of cleanup costs to all contractors involved in the project prior to reimbursement. This has tapped out several smaller marketers, who have found it difficult to bear the brunt of larger upfront costs. npn



Amoco Stays in Salt Lake: Good News, Bad News (Maybe)

Amoco's decision to continue to operate its refinery in Salt Lake City is good news for Intermountain marketers, of course, but it may not be forever. The longer-term survival of the refinery depends, apparently, on how much more environmental investments the company must make in the future.

After at least six months of trying to find a buyer for the facility, Amoco rejected all bids. President William G. Lowrie says buyer interest did not match the value Amoco places on the operations. Consequently, the company is investing about $50-million over the next two years "for the continued near-term operation of the facilities." He adds that the company will continue to evaluate these operations in the longer term.

Phillips Petroleum was also unable to find a buyer this year for its 25,000 b/d Salt Lake refinery, terminals and marketing business. The company says it received no offers at the price the company considered the properties were worth. Both Amoco and Phillips had to reach into their relatively deep major pockets to keep the plants going. The alternative was to shut them down.

More than 20 companies looked at Phillips' package. Probably a like number looked at Amoco's. Considered likely candidates were Conoco, Sinclair, Flying J, Diamond Shamrock, Pennzoil and Harken Energy.

Amoco's Lowrie says the Intermountain operations—which include the 42,000 b/d refinery as well as three marketing terminals and 39 Rainbo gasoline stations—are "profitable and are projected to bring in positive cash flow for Amoco over the near-term."

He continued, "Like many other refiners we remain concerned about the long-term profitability of U.S. refineries due to